The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2007: budgetary surplus of $2.7 billion

There was a budgetary surplus of $2.7 billion in December 2007, compared to a surplus of $1.3 billion in December 2006. Budgetary revenues were up $3.1 billion, or 16.1 per cent, driven by growth in income tax and goods and services tax (GST) revenues. Program expenses increased by $1.9 billion, or 12.7 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges were down $0.2 billion.

April to December 2007: budgetary surplus of $9.4 billion

For the first nine months of the 2007–08 fiscal year, the budgetary surplus is estimated at $9.4 billion, up $1.2 billion from the $8.2-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by $10.6 billion, or 6.4 per cent, reflecting gains across most revenue streams, particularly corporate income tax and other revenues. The results to date include personal income tax relief measures for 2007 introduced in the October 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to $9,600, both effective January 1, 2007. Program expenses were up $9.8 billion, or 7.4 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down $0.4 billion, reflecting reductions in market debt.

An update of the 2007–08 budgetary surplus projection is provided in Budget 2008.

December 2007

There was a budgetary surplus of $2.7 billion in December 2007, compared to a $1.3-billion surplus in December 2006.

Budgetary revenues increased by $3.1 billion, or 16.1 per cent, to $22.3 billion.

- Personal income tax revenues increased by $0.7 billion, or 6.6 per cent, as the tax relief introduced in the October 2007 Economic Statement was more than offset by growth in employment and wages and salaries and by the inclusion of one more large processing day for payroll deductions in December 2007 than in December 2006.
- Corporate income tax revenues rose by $1.3 billion, or 39.2 per cent, boosted by year-end settlement payments for the 2007 tax year.
- Other income tax revenues—withholdings from non-residents—rose by $0.2 billion, or 49.0 per cent.
- Excise taxes and duties were up $0.5 billion, or 18.9 per cent. The increase was largely due to a $0.4-billion, or 24.0-per-cent, increase in GST revenues, reflecting strong domestic collections. Customs import duties increased by $29 million, sales and excise tax revenues by $0.1 billion, and revenues from the Air Travellers Security Charge by $8 million.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.

- Employment Insurance (EI) premium revenues were down 6.5 per cent, consistent with the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose by $0.4 billion, or 24.7 per cent.

Program expenses in December 2007 were $17.0 billion, up $1.9 billion, or 12.7 per cent, from December 2006, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up $1.4 billion, or 14.1 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, increased by $0.1 billion, or 2.3 per cent. Elderly benefits increased by 4.8 per cent while EI benefits decreased by 2.3 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), increased by 1.1 per cent.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (the Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.2 billion, or 4.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers increased by $1.1 billion, or 69.0 per cent. This mainly reflects an increase in payments to provinces related to the historic investment in infrastructure announced in Budget 2007 and to provincial offshore revenue funds, as well as the announced $0.6 billion for new agriculture programs under *Growing Forward*, the new policy framework for Canada's agriculture, agri-food and agri-based products industry.

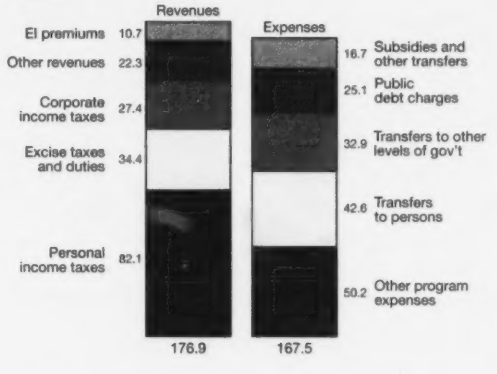
Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose by $0.5 billion, or 10.0 per cent.

Public debt charges decreased by $0.2 billion.

April to December 2007

Through the first nine months of the 2007–08 fiscal year, there was a budgetary surplus of $9.4 billion, up $1.2 billion from the $8.2-billion surplus reported in the same period of 2006–07.

Revenues and expenses
(April to December 2007)



Budgetary revenues increased by $10.6 billion, or 6.4 per cent, to $176.9 billion.

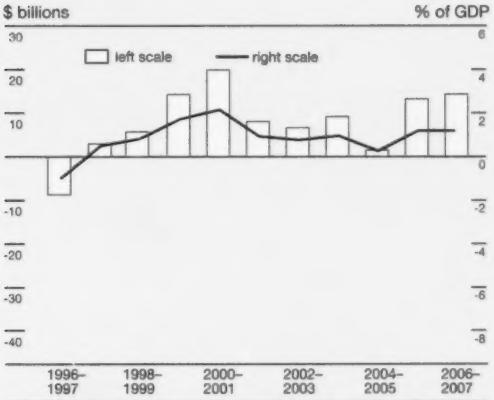
- Personal income tax revenues increased by $0.8 billion, or 1.0 per cent, reflecting $2.9 billion in tax relief measures retroactive to January 1, 2007 announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up $4.9 billion, or 21.9 per cent. Part of the exceptionally strong growth to date reflects tax remittance patterns last fiscal year, when many corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made significant settlement payments in February and March 2007. As such, the year-over-year growth in corporate receipts is expected to slow in the final months of this fiscal year.
- Other income tax revenues rose by $0.3 billion, or 8.1 per cent.
- Excise taxes and duties increased by $1.3 billion, or 4.1 per cent. GST revenues increased by $0.9 billion, or 3.7 per cent. Customs import duties increased by $0.2 billion, sales and excise tax revenues by $0.3 billion, and revenues from the Air Travellers Security Charge by $23 million.
- EI premium revenues were down $0.1 billion, or 0.9 per cent, reflecting the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues rose by $3.3 billion, or 22.2 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

Program expenses for April to December 2007 were $142.4 billion, up $9.8 billion or 7.4 per cent from the same period of 2006, reflecting an increase in transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by $6.8 billion, or 8.0 per cent.

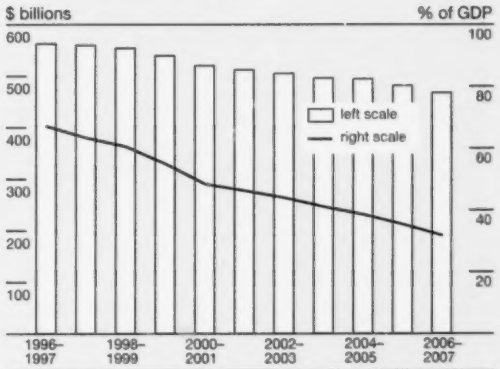
- Major transfers to persons were up $1.8 billion, or 4.4 per cent. Elderly benefits increased by 4.2 per cent and EI benefits by 1.8 per cent. Children's benefits were up $0.7 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Major transfers to other levels of government were up $2.5 billion, or 8.3 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up $2.5 billion, or 18.0 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and to provincial offshore revenue funds.

Other program expenses increased by $3.0 billion, or 6.3 per cent.

Public debt charges decreased by $0.4 billion, or 1.4 per cent, reflecting lower unmatured debt levels.

Financial source of $16.3 billion for April to December 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $9.4 billion and a source of $6.9 billion from non-budgetary transactions, there was a financial source of $16.3 billion for April to December 2007, compared to a financial source of $4.0 billion for the same period of 2006. The increase in the financial source is due in part to the appreciation of the Canadian dollar in 2007. It also reflects the personal income tax relief measures introduced in the October 2007 Economic Statement, which are retroactive to January 1, 2007, but which will primarily affect cash balances when individuals file their income tax returns for 2007.

Net financing activities down $31.9 billion

The Government used this financial source of $16.3 billion and a reduction in its cash balances of $15.7 billion to reduce its market debt by $31.9 billion by the end of December 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December 2007 stood at $5.6 billion, $1.5 billion above their level at the end of December 2006.

Table 1

Summary statement of transactions

	December		April to December	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	19,246	22,346	166,264	176,878
Expenses				
Program expenses	-15,127	-17,041	-132,583	-142,399
Public debt charges	-2,827	-2,640	-25,477	-25,110
Budgetary balance (deficit/surplus)	1,292	2,665	8,204	9,369
Non-budgetary transactions	-65	-1,899	-4,208	6,915
Financial source/requirement	1,227	766	3,996	16,284
Net change in financing activities	-10,504	-7,246	-17,887	-31,936
Net change in cash balances	-9,277	-6,480	-13,891	-15,652
Cash balance at end of period			4,067	5,556

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	December			April to December		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	10,163	10,836	6.6	81,244	82,065	1.0
Corporate income tax	3,325	4,629	39.2	22,450	27,375	21.9
Other income tax	402	599	49.0	3,859	4,171	8.1
Total income tax	13,890	16,064	15.7	107,553	113,611	5.6
Excise taxes and duties						
Goods and services tax	1,841	2,283	24.0	22,877	23,732	3.7
Customs import duties	251	280	11.6	2,680	2,877	7.4
Sales and excise taxes	778	847	8.9	7,179	7,452	3.8
Air Travellers Security Charge	25	33	32.0	268	291	8.6
Total excise taxes and duties	2,895	3,443	18.9	33,004	34,352	4.1
Total tax revenues	16,785	19,507	16.2	140,557	147,963	5.3
Employment Insurance premiums	739	691	-6.5	10,840	10,742	-0.9
Other revenues	1,722	2,148	24.7	14,867	18,173	22.2
Total budgetary revenues	19,246	22,346	16.1	166,264	176,878	6.4

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	December			April to December		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,566	2,690	4.8	22,745	23,697	4.2
Employment Insurance benefits	1,130	1,104	-2.3	9,765	9,939	1.8
Children's benefits	985	996	1.1	8,304	8,958	7.9
Total	4,681	4,790	2.3	40,814	42,594	4.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,794	6.9	15,105	16,071	6.4
Canada Social Transfer	708	834	17.8	6,375	7,347	15.2
Total	2,386	2,628	10.1	21,480	23,418	9.0
Fiscal transfers	1,125	1,265	12.4	9,955	11,017	10.7
Canada's cities and communities	204	0	-100.0	548	722	31.8
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-226	-248	9.7	-2,281	-2,281	0.0
Total	3,489	3,645	4.5	30,352	32,876	8.3
Subsidies and other transfers						
Agriculture and Agri-Food	330	803	143.3	1,701	1,706	0.3
Foreign Affairs and International Trade	265	263	-0.8	1,576	1,487	-5.6
Health	138	111	-19.6	1,399	1,478	5.6
Human Resources and Social Development	108	130	20.4	1,186	1,226	3.4
Indian Affairs and Northern Development	451	431	-4.4	3,556	3,691	3.8
Industry	266	244	-8.3	1,518	1,480	-2.5
Other	60	752	1,153.3	3,235	5,647	74.6
Total	1,618	2,734	69.0	14,171	16,715	18.0
Total transfer payments	9,788	11,169	14.1	85,337	92,185	8.0
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	56	59	5.4	946	927	-2.0
Canada Mortgage and Housing Corporation	155	177	14.2	1,510	1,473	-2.5
Other	360	450	25.0	2,578	3,037	17.8
Total	571	686	20.1	5,034	5,437	8.0
Defence	1,375	1,505	9.5	11,627	12,845	10.5
All other departments and agencies	3,393	3,681	8.5	30,585	31,932	4.4
Total other program expenses	5,339	5,872	10.0	47,246	50,214	6.3
Total program expenses	15,127	17,041	12.7	132,583	142,399	7.4
Public debt charges	2,827	2,640	-6.6	25,477	25,110	-1.4
Total budgetary expenses	17,954	19,681	9.6	158,060	167,509	6.0

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	December		April to December	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	1,292	2,665	8,204	9,369
Non-budgetary transactions				
Capital investing activities	-283	-264	-1,572	-1,525
Other investing activities	1,680	-395	-954	-1,573
Pension and other accounts	469	265	3,853	5,383
Other activities				
Accounts payable, receivables, accruals and allowances	-1,771	-1,502	-8,998	-1,747
Foreign exchange activities	-380	16	1,205	4,777
Amortization of tangible capital assets	220	-19	2,258	1,600
Total other activities	-1,931	-1,505	-5,535	4,630
Total non-budgetary transactions	-65	-1,899	-4,208	6,915
Net financial source/requirement	1,227	766	3,996	16,284

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	December		April to December	
	2006	2007	2006–07	2007–08
	($ millions)			
Net financial source/requirement	1,227	766	3,996	16,284
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-8,642	-6,203	-5,088	-7,458
Treasury bills	-3,200	-1,300	-6,900	-18,300
Canada Savings Bonds	-69	-28	-1,877	-1,938
Other	-27	0	-1,160	-699
Total	-11,938	-7,531	-15,025	-28,395
Foreign currency borrowings	26	399	-3,938	-1,097
Total	-11,912	-7,132	-18,963	-29,492
Cross-currency swap revaluation	1,117	-303	1,335	-2,889
Unamortized discounts on debt issues	297	189	-190	19
Obligations related to capital leases	-6	0	-69	426
Net change in financing activities	-10,504	-7,246	-17,887	-31,936
Change in cash balance	-9,277	-6,480	-13,891	-15,652

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2007	December 31, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	101,484	-5,027
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	250,024	-7,458
Treasury bills	134,074	115,774	-18,300
Canada Savings Bonds	15,175	13,237	-1,938
Other	1,743	1,044	-699
Subtotal	408,474	380,078	-28,395
Payable in foreign currencies	10,372	9,275	-1,097
Cross-currency swap revaluation account	-1,091	-3,980	-2,889
Unamortized discounts and premiums on market debt	-6,659	-6,640	19
Obligations related to capital leases	3,096	3,523	426
Total unmatured debt	414,192	382,256	-31,936
Pension and other accounts			
Public sector pensions	134,726	137,069	2,343
Other employee and veteran future benefits	45,123	46,892	1,769
Other pension and other accounts	5,211	6,482	1,271
Total pension and other accounts	185,060	190,443	5,383
Total interest-bearing debt	599,252	572,700	-26,553
Total liabilities	705,763	674,183	-31,580
Financial assets			
Cash and accounts receivable	92,586	73,656	-18,930
Foreign exchange accounts	44,178	39,401	-4,777
Loans, investments and advances (net of allowances)	45,094	46,667	1,573
Total financial assets	181,858	159,724	-22,134
Net debt	523,905	514,459	-9,446
Non-financial assets	56,637	56,562	-75
Federal debt (accumulated deficit)	467,268	457,897	-9,369

Note: Totals may not add due to rounding.

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